

# HP Enterprise Services UK Ltd

## Report and Financial Statements

31 October 2012

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# HP Enterprise Services UK Ltd

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Registered No 53419

## **Directors**

M Birch  
S Burr  
S Grayson (nee Ellerker)  
R Putland  
R Trevor  
C Wilson  
N Wilson

## **Secretary**

R Putland

## **Auditors**

Ernst & Young LLP  
Apex Plaza  
Forbury Road  
Reading  
Berkshire  
RG1 1YE

## **Registered Office**

Amen Corner  
Cain Road  
Bracknell  
Berkshire  
RG12 1HN

Registered No 53419

## **Directors' report**

The directors present their report and the financial statements of the company for the year ended 31 October 2012

### **Results and dividends**

The profit for the year, after taxation, amounted to £154,327,000 (2011 profit of £85,502,000)  
An ordinary dividend of £nil (2011 £13,900,000) was paid during the year (note 9)

### **Principal activities and review of the business**

The company is a leading global technology services company delivering business solutions to its clients. It delivers a broad portfolio of IT and business process outsourcing services to clients in the manufacturing, financial services, healthcare, communications, energy, transportation, consumer and retail industries, and to the government.

Services include outsourcing of network and systems operations, data management, application development, security and field services. The company provides outsourcing of entire business processes or functions to improve overall business performance, and delivers process and technology consulting, e-business enabled solutions, and high-value management consulting.

The company's portfolio is built around innovative offerings in application maintenance and development, business processing outsourcing, and infrastructure services, including desktop services, hosting, storage and networking. Services are delivered using an 'Agile Enterprise' Platform, and use a next-generation global delivery system and Best-Shore strategy to ensure high-quality, cost-competitive services from an optimal mix of onshore, near-shore and offshore locations. This enables the company's clients to respond quickly to changing market dynamics and increase their competitiveness.

### **Pensions**

The company offers both defined benefit and defined contribution pension schemes as benefits to employees. Details of the defined benefit schemes and the amounts included within these financial statements can be found in note 21. The sponsored defined benefit schemes operated by the company have been closed to new individual members for a number of years. All new individual employees joining the company are invited to join the defined contribution schemes operated by Hewlett-Packard Limited, a fellow UK group company.

At 31 October 2012, the net pension deficit reported is £831,788,000 (2011 £715,346,000). The most significant factor driving this increase to reduce shareholders funds in the year is from the actuarial loss net of deferred tax recognised within the statement of total recognised gains and losses of £174,883,000 (2011 £283,601,000) (see note 20). This actuarial loss was predominately driven by decreased discount rates in the UK.

The company continues to support these schemes with the current funding arrangements included in note 21.

## Directors' report (continued)

### Going concern

The group's business activities, together with the factors likely to affect its future developments, its financial position, financial risk management objectives, and review of business risk are described in the business review below

The company continues to be profitable and the company is expected to generate revenue from both internal and external customers. The directors have reviewed the company's budget and forecasts for the next twelve months from the date of these financial statements

As a result, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements

### Review of business risk

There are a range of risks and uncertainties facing the company and the list below is not intended to be exhaustive. The focus is on those specific risks and uncertainties that the directors believe could have a significant impact on the company's performance, as analysed by its key performance indicators

#### Market conditions

Levels of business activity will vary for each of the markets in which HP Enterprise Services UK Ltd operates, but ultimately this is dependent on factors such as economic cycles, consumer confidence and growth of the economy. A weak economy could affect the level of customer spending on the services offered

#### Competitive pressures

The company operates in a number of highly competitive markets with differing characteristics. Market share could be affected by the emergence of new competitors, product distribution issues, quality, and reputation

#### Customers

The company must maintain its ability to continue to provide an innovative service to its customer base and develop in a profitable way in an increasingly price sensitive market

#### Parent company dependency

HP Enterprise Services UK Ltd is a subsidiary of Hewlett-Packard Company and is dependent on this parent undertaking for its brand strength

Any risks impacting the ultimate parent undertaking will cascade to HP Enterprise Services UK Ltd. A full description of the risks and uncertainties impacting Hewlett-Packard Company can be found in the Hewlett-Packard Company group financial statements, which can be obtained as detailed in note 24 to the financial statements

#### Treasury policy

Hewlett-Packard Company, the ultimate parent undertaking, has a centralised treasury function which manages the overall group's Treasury policy and requirements

The main risk arising from the financial instruments are liquidity, foreign currency risk and interest rate risk. These risks, and the policies to manage them, are summarised below. The company does not enter into speculative derivative contracts

## Directors' report (continued)

### Review of business risk (continued)

#### Treasury policy (continued)

##### Interest rate risk

The company manages its interest rate risk primarily through the use of fixed rate loans. It seeks to issue debt opportunistically, at the lowest possible cost, based upon assessment of the future interest rate environment.

##### Liquidity and refinancing risk

Hewlett-Packard Company's objective is to produce continuity of funding at a reasonable cost. To do this it seeks to arrange committed funding for a variety of maturities from a diversity of sources.

##### Foreign currency risk

The company borrows and holds cash balances in both Sterling and US Dollars. Hewlett-Packard Company's centralised treasury function manages foreign currency risk for the wider group, including HP Enterprise Services UK Ltd.

### Financial key performance indicators

The directors monitor the company's progress against its strategic objectives and the financial performance of the company's operations on a regular basis. Details of the most significant Key Performance Indicators (KPI's) used by the company are as follows.

#### Performance

The company results combine a portfolio of contract performances in different phases, ranging from start ups through transformation of services to continuing repetitive services with continuing initiatives to improve performance. Trading results show consistent turnover levels to the previous year with margins increased due to an exceptional royalty credit relating to prior years of £93,782,875. Gross profit for the year before exceptional items reduced, reflecting trading in the current difficult global market conditions. Focus into the future is on initiatives to move the company towards achieving higher profits through cost rationalisations (for example through the current "make it better" program) and growth through cost competitiveness and service quality.

The above is illustrated by Financial Key Performance Indicators used by the business

	2012	2011
	£m	£m
Revenue	2,625.5	2,525.3
Gross profit	280.7	243.4
Gross profit %	10.7	9.6
Profit before tax (PBT)	190.5	152.0
Total contract value (TCV) of new business signings	600.5	1,180.9

Management considers TCV to be an important metric to monitor new business activity. Reduced TCV in the current year reflects the difficulty seen in the current economic climate as well as the competitive market place in which the company operates. It is expected that the current long term contracts of 7 to 10 year lengths will be replaced in the future years with shorter contract terms.

There are no third-party standards or requirements governing the calculation of TCV. The TCV of a client contract represents the company's estimate at contract signing of the total revenue expected over the term of the contract. Contract signings include contracts with new clients and renewals, extensions and add-on business with existing clients and excludes the UK element on global deals. The above includes individual signings with TCV greater than US\$25m. An indicative exchange rate of 1.586 £1 (2011 US\$1.607 £1) has been used for the purposes of calculating this metric.

## Directors' report (continued)

### The environment

Hewlett-Packard's goals are to provide products and services that are safe and environmentally sound throughout their lifecycles, and conduct operations in an environmentally responsible manner

To accomplish this, Hewlett-Packard will

- pursue pollution prevention, energy conservation (including significant investment in low energy data centres and consolidating services into this more efficient estate) and waste reduction in operations,
- design and manufacture products to be safe to use and to minimise their environmental impact,
- offer customers environmentally responsible end-of-life management services for products, and
- require suppliers to conduct their operations in a socially and environmentally responsible manner

The company achieves this by integrating these objectives into business planning, decision-making, performance tracking and review processes to ensure that goals are reached and continually improved upon

Hewlett-Packard Company, for which HP Enterprise Services UK Ltd is a subsidiary, publishes an annual corporate responsibility report where detailed company wide environmental commitments, initiatives and key performance indicators can be found

### Directors

The directors who served the company during the year and those who were appointed subsequently are as follows

M Birch	(appointed 25 October 2012)
S Burr	
S Grayson (nee Ellerker)	(appointed 25 October 2012)
R Putland	(appointed 25 October 2012)
R Trevor	(appointed 25 October 2012)
C Wilson	(appointed 25 October 2012)
N Wilson	

None of the directors had a disclosable interest in the shares of the company

During the period, and up to the date of approval of the financial statements, the company had in place a third party indemnity provision for the benefit of all the directors of the company

### Donations

Donations to UK charities and education establishments amounted to £10,600 (2011 £8,253)

### Employees

Details of the number of employees and related costs can be found in note 5 to the financial statements

### Employment of disabled employees

All applications from disabled persons are fully considered. Should an employee become disabled, it is the company's practice to continue their current employment where possible or offer suitable alternatives. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

## **Directors' report (continued)**

### **Employee involvement**

The company continues to place importance upon the education and development of its people. There is a well-developed employee involvement programme within the company. Employee representatives are consulted regularly on a wide range of matters affecting their interests. Employees receive regular newsletters and have the opportunity to provide feedback to senior management by participating in an annual Voice of the Workforce survey.

All employees' training and development is supported by continuing in-service education. Employees who have completed minimum periods of service are eligible to join both the company performance bonus and share purchase schemes of the Hewlett-Packard Company.

Hewlett-Packard's goal is to create health and safety practices and work environments that enable employees to work injury-free. This is accomplished by continually reducing occupational injury and illness risks while promoting employee health and well-being.

The company believes that a diverse workforce encourages creativity and innovation and helps build an exciting, stimulating work environment. A diverse workforce, reflecting the demographics of the many different markets where Hewlett-Packard operates, also provides a competitive advantage and helps acquire new business.

Hewlett-Packard Company, for which HP Enterprise Services UK Ltd is a subsidiary, publishes an annual corporate responsibility report where detailed company wide employee commitments, initiatives and key performance indicators can be found.

### **Policy and practice on the payment of creditors**

The company policy is to pay all suppliers' invoices in 45 days from the fifteenth day of the month following the invoice date. On occasions other payment terms have been agreed. The company's policy, in relation to all of its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms provided that it is satisfied that the supplier had provided the goods of the transaction and that the supplier had provided the goods or services in accordance with the agreed terms and conditions.

### **Research and development**

During the normal course of its business the company carries out software development, process development and systems integration activities which may incorporate an appreciable element of innovation. This expenditure is expensed as incurred and can be seen in the operating profits note in the financial statements.

### **Auditors**

Ernst & Young LLP continue as the company's auditor. In accordance with the elective resolution passed by the company under section 386 of the Companies Act 1985, which continues in force under the Companies Act 2006, the company has elected to dispense with the obligation to appoint auditors annually.

## Directors' report (continued)

### Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditor, each of these directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

On behalf of the Board



S Burr

Director

Date 29 April 2013



## **Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Independent auditor's report**

**to the members of HP Enterprise Services UK Ltd**

We have audited the financial statements of HP Enterprise Services UK Ltd for the year ended 31 October 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on the financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 October 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Independent auditor's report (continued)

to the members of HP Enterprise Services UK Ltd

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

ERNST & YOUNG LLP

Marcus Butler (Senior Statutory Auditor)  
For and on behalf of Ernst & Young LLP  
Statutory Auditor  
Reading

Date 29/04/13

## Profit and loss account

for the year ended 31 October 2012

		2012	2011
	Notes	£000	£000
<b>Turnover</b>	2	2,625,475	2,525,329
Cost of sales		<u>(2,344,813)</u>	<u>(2,281,928)</u>
<b>Gross profit</b>		280,662	243,401
Administrative expenses		<u>(117,897)</u>	<u>(122,704)</u>
<b>Operating Profit</b>	3	162,765	120,697
Net income from investments		11,697	13,900
Interest receivable and similar income	6	41,390	45,004
Interest payable and similar charges	7	<u>(25,401)</u>	<u>(27,593)</u>
<b>Profit on ordinary activities before taxation</b>		190,451	152,008
Tax on profit on ordinary activities	8	<u>(36,124)</u>	<u>(66,506)</u>
<b>Profit for the financial year</b>		<u>154,327</u>	<u>85,502</u>

All of the activities of the company are classed as continuing

## Statement of total recognised gains and losses

for the year ended 31 October 2012

		2012	2011
	Notes	£000	£000
Profit for the financial year attributable to the shareholder		154,327	85,502
Actuarial loss in respect of defined benefit pension scheme	21	(204,188)	(360,605)
Current tax in respect of defined benefit pension scheme (note 8(a))		19,323	17,135
Deferred tax in respect of defined benefit pension scheme		31,377	79,615
Rate change impact of deferred tax in respect of defined benefit pension scheme		<u>(21,395)</u>	<u>(19,746)</u>
<b>Total recognised loss relating to the year</b>		<u>(20,556)</u>	<u>(198,099)</u>

## Balance sheet

at 31 October 2012

	Notes	2012 £000	2011 £000
<b>Fixed assets</b>			
Tangible assets	10	366,090	333,934
Intangible assets	11	94,913	133,676
Investments	12	116	5,294
		<u>461,119</u>	<u>472,904</u>
<b>Current assets</b>			
Stocks	13	69,159	68,163
Debtors [including £363,735,000 (2011 £449,005,000) due after more than one year]	14	1,514,070	1,417,858
Cash at bank		256	-
		<u>1,583,485</u>	<u>1,486,021</u>
<b>Creditors:</b> amounts falling due within one year	15	<u>(733,380)</u>	<u>(764,854)</u>
<b>Net current assets</b>		<u>850,105</u>	<u>721,167</u>
<b>Total assets less current liabilities</b>		<u>1,311,224</u>	<u>1,194,071</u>
<b>Creditors:</b> amounts falling due after more than one year	16	<u>(211,573)</u>	<u>(190,500)</u>
		<u>1,099,651</u>	<u>1,003,571</u>
<b>Provision for liabilities and charges</b>	18	<u>(86,514)</u>	<u>(94,434)</u>
<b>Net assets excluding pension liability</b>		<u>1,013,137</u>	<u>909,137</u>
Defined benefit pension scheme liability	21	<u>(831,788)</u>	<u>(715,346)</u>
<b>Net assets including pension liability</b>		<u>181,349</u>	<u>193,791</u>
<b>Capital and reserves</b>			
Called up equity share capital	19	157,580	157,580
Profit and loss account	20	23,769	36,211
<b>Shareholders' funds</b>	20	<u>181,349</u>	<u>193,791</u>

Approved by the Board



S Burr  
Director

Date 29 April 2013

## Notes to the financial statements

at 31 October 2012

### 1. Accounting policies

The following accounting policies have been applied consistently in dealing with the items which are considered material in relation to the financial statements, except as noted below

#### **Accounting convention**

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

The company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

#### **Cash flow statement**

Under Financial Reporting Standard No. 1 (revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent undertaking, Hewlett-Packard Company, includes the company in its own published group financial statements.

#### **Turnover**

Turnover is recognised to the extent that the company obtains the right to consideration in exchange for performance. Turnover is measured at the fair value of the consideration received, excluding discounts, rebates, Value Added Tax and other sales taxes or duty.

Turnover on contracts is recognised as described below under 'Accounting for Contracts'.

#### **Accounting for contracts**

With the exception of PFI contracts (discussed below) in order to account for a contract's performance, each contract is split out into its separable deliverable elements. In accordance with Financial Reporting Standard No. 5 Application Note G, the total contract revenue is allocated to each separate element based on the fair value of each element. Thereafter the accounting for each element is considered independently. If a contract only consists of a single element then no separation takes place.

Where the contract element is for the provision of service or repetitive processes, revenue is generally recognised when the product or service is provided. If services are provided evenly during the contract term but billings are irregular, revenue is recognised on a straight-line basis over the contract term that is as the service is being provided. Where the contract element is a major development or implementation project that is transferred to the customer on completion the element is accounted for in accordance with Statement of Standard Accounting Practice No. 9, 'Stocks and long-term contracts'. Revenue recognition is based on a delivery approach to measure the stage of completion, depending on the specific contractual terms the measurement of delivery takes the form of performance milestones, costs completed to date or other appropriate measure. Profits are only recognised when the outcome of this contract element can be foreseen with reasonable certainty. Provision is made for losses on this element as soon as they are foreseen.

## Notes to the financial statements

at 31 October 2012

### 1. Accounting policies (continued)

#### *Accounting for contracts (continued)*

Where the contract element is the provision of assets under a leasing arrangement the element is accounted for under SSAP21 'Accounting for leases and Hire purchase contracts'. The lease is accounted for as stated in the leasing and hire purchase accounting policy note.

Contract costs that are directly attributable to building a fixed asset, including computer systems, are capitalised and depreciated over the expected life of the related asset. The company also defers and subsequently expenses over the life of the contract certain initial set up costs related to the activities, which enable the provision of contracted services to the client. Such activities include the relocation of transitioned employees, the migration of client systems or processes, and the exit of client facilities.

The recoverability of all fixed assets and other deferred costs associated with a particular contract are reviewed for impairment on a regular basis by reference to their estimated recoverable amount being the higher of their net realisable value and their value in use or their cost and net realisable value as appropriate. Values in use are based on the estimated cash flows of the contract over its remaining term.

#### *Private Finance Initiative (PFI) and similar contracts*

PFI and similar contracts are accounted for in accordance with Financial Reporting Standard No 5 Application Note F 'PFI and Similar Contracts'. Where it can be demonstrated that the balance of risks and rewards derived from the underlying assets are not borne by the company, the asset created under the contract is accounted for as a financial debtor. Income derived from such contracts is allocated to the provision of the asset and the provision of the services. This asset is reduced as payments are received from the client. In addition financial income on this financial asset is recorded in subsequent years using a property specific interest rate. The remainder of the PFI payments (i.e. full payments less the capital repayment and the imputed financing charge) is recorded within operating profit. During the period from the start of the contract to the date of the acceptance of the completed asset by the client, turnover equal to cost incurred is recognised.

#### *Research and development*

Research and development expenditure is written off to the profit and loss account in the year in which it is incurred.

#### *Goodwill*

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations is capitalised and amortised over its useful economic life on a straight-line basis. The directors estimate the useful economic life of the goodwill relating to each acquisition on an individual basis.

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Goodwill – 3 to 20 years (straight line)

#### *Tangible fixed assets*

All fixed assets are initially recorded at cost.

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Land and property	– 40 years (straight line), no depreciation on land
Leasehold improvements	– 5 to 40 years or length of lease if shorter (straight line)
Plant and machinery	– 3 to 10 years (straight line)
Software	– 3 to 5 years (straight line)

## Notes to the financial statements

at 31 October 2012

### 1. Accounting policies (continued)

#### *Tangible fixed assets (continued)*

Costs incurred in establishing a new or changed operation in relation to a contract and that meets the criteria for recognition of as tangible fixed assets under Financial Reporting Standard No 15 'Tangible Fixed Assets' are capitalised as tangible fixed assets. Such costs are depreciated over the shorter of the life of the asset or contract term as appropriate.

The company typically has an obligation to return buildings that it occupies under lease to their original condition when the relevant lease is terminated. In such cases the company records the obligation (discounted to its net present value) when the condition of the building is altered, and creates a tangible fixed asset equal in value to that obligation. Such fixed assets are categorised as leasehold improvements and depreciated on a straight line basis over the period of the lease to which they relate.

#### *Investments*

Investments are included at cost less amounts impaired. Profits or losses arising from disposals of fixed asset investments are treated as part of the result from ordinary activities.

#### *Stocks*

Stocks and work in progress are stated at the lower of cost and net realisable value. Costs include appropriate overheads. Work in progress is reduced by payments received on account of work done and is stated after allowing for all foreseeable losses.

#### *Taxation*

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised without discounting in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax in future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

#### *Foreign currencies*

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.



## Notes to the financial statements

at 31 October 2012

### 1. Accounting policies (continued)

#### *Leasing and hire purchase accounting*

(i) Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over the shorter of the lease term or their useful lives. Where the asset is used by the company the capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet. Where the assets are leased to the customer, the asset is reflected in the Net Investment in finance leases.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

(ii) Amounts receivable under finance leases are included under debtors and represent the total amount outstanding under lease agreements less unearned income. Finance lease income, having been allocated to accounting periods to give a constant periodic rate of return on the net cash investment, is included in turnover.

The interest elements of the rental obligations on both the asset and liability are charged in the profit and loss account over the periods of the leases and represent a constant periodic rate of return on the net cash investment asset and a constant proportion of the balance of capital liability repayments outstanding.

(iii) Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Rentals receivable under operating leases are included in turnover on an accrual basis.

#### *Pension costs and other post-retirement benefits*

The company accounts for both defined benefit and defined contribution pension schemes. The assets of the schemes are held separately from those of the company.

In relation to the defined contribution schemes, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

Defined benefit pension scheme assets are measured using market values. Associated pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full on the balance sheet, net of deferred tax within the pension asset/liability.

The amount charged to operating profit is the current service cost of providing retirement benefits to employees during the year as well as the full cost of providing amendments to benefits in respect of past service.

The expected return on the market value of the pension scheme assets at the start of the financial year and the expected increase in the scheme's liabilities due to the unwinding of the discount during the year are shown as financing costs in the profit and loss account.

Any difference between the expected and actual return on assets together with differences from changes in assumptions, are recognised as actuarial gains and losses in the statement of total recognised gains and losses.

## Notes to the financial statements

at 31 October 2012

### 1. Accounting policies (continued)

#### *Pension costs and other post-retirement benefits (continued)*

Included within the pension liability are pension enhancements provided to employees leaving through redundancies, such enhancements on redundancy are outside of the scope of FRS 17 Retirement Benefits

The company also pays other termination benefits which are outside of the scope of FRS 17 Retirement Benefits. The company has offered contractual enhancement payments to ex-employees who have had their employment terminated early. These payments are payable to the recipient employee from the date of termination to either the retirement age or to death depending on the contractual terms agreed with that employee. These amounts are linked to pensions and are administered as such but are funded directly by the company and are separate from the pension schemes. The resulting liability is measured at the discounted value of the future payments, using similar assumptions to the pension plan and are booked as part of 'Provisions for liabilities and charges'.

#### *Equity-settled transactions*

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using an appropriate option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the profit and loss account for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the profit and loss account.

The company has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards so as to apply FRS 20 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 November 2006.

The company records the charge payable to Hewlett-Packard Company for the difference between the market value of exercised options and the exercise price of those options when the liability is due. The Company records the charge to the profit and loss account if the charge relates to options that are not in scope for FRS 20. The Company records the charge to equity if the charge relates to options that are in scope for FRS 20.

## Notes to the financial statements

at 31 October 2012

### 1. Accounting policies (continued)

#### *Classification of financial instruments issued by the company*

Financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions

a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets of financial liabilities with another party under conditions that are potentially unfavourable to the company, and

b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholder funds, are dealt with as appropriations in the reconciliation of movements in shareholder's funds.

#### *Dividends on shares presented within shareholders' funds*

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

#### *Government grants*

Government grants are recognised in the profit and loss account so as to match them with the expenditure towards which they are intended to contribute. Any unrecognised amounts are capitalised in the balance sheet as deferred revenue.

#### *Interest income*

Income is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

#### *Dividends*

Income is recognised when the company's right to receive the payment is established.

#### *Provisions*

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and if it is probable that an outflow of economic benefits will be required to settle the obligation.

If the effect is material, the expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability.

### 2. Turnover

Segmental analysis for turnover by geographical split has not been provided as it is the opinion of the directors that any disclosure would be seriously prejudicial to the interests of the company and therefore has not been disclosed.

The company operates within one industry segment, the provision of technology business solutions.

## Notes to the financial statements

at 31 October 2012

### 3. Operating profit

This is stated after charging/(crediting)

	2012 £000	2011 £000
Auditors' remuneration – audit of the financial statements	545	777
- other services	5	7
Amortisation	38,763	38,775
Depreciation of owned fixed assets	54,239	66,502
Depreciation of assets held under hire purchase agreements	11,185	4,845
Loss on disposal of fixed assets	222	3,052
Research and development expenditure	36,704	61,863
Foreign exchange loss/(gain)	1,523	(345)
Operating lease costs – plant and equipment	30,702	32,589
- other	30,728	29,978
Exceptional items – royalty income *	(93,783)	-
- increase in contract provisions	384	2,892
- employee redundancy costs	18,415	10,128
- increase/(decrease) in dilapidations and onerous lease provisions	1,923	(5,490)

\*During the year income was received in relation to royalties due from a fellow group company for a number of prior years

### 4. Directors' emoluments

The directors of the company all receive payment of directors' emoluments in respect of services for the company which are borne by another fellow group company Hewlett Packard Limited

The director's emoluments have been disclosed below where appropriate apportionment of the directors qualifying services can be determined for the entity. Some of the directors have been unable to apportion their directors emoluments to the qualifying services performed for this company and so these amounts are not disclosed. These directors spend variable amounts of time over a number of the companies within the Hewlett Packard group.

The emoluments for Directors who have spent time performing services for this Company is £918,825 (2011 £1,350,779) with pension contributions of £40,179 (2011 £68,372)

The emoluments of the highest paid director were remuneration £691,670, pensions £28,214 (2011 remuneration £742,895, pensions £21,843)

Four directors participated in the company's defined contribution pension scheme during the year ended 31 October 2012 (2011 four). Three directors participated in a fellow group company's defined benefit pension scheme during the year ended 31 October 2012 (2011 one). Two directors acquired shares through the vesting of previously granted restricted stock units (2011 four).

The Directors of the Company estimate that the total remuneration in relation to identifiable qualifying services during the year for HP Enterprise Services UK Ltd is £591,840 (2011 £554,000) with pension contributions of £25,413 (2011 £31,000)

## Notes to the financial statements

at 31 October 2012

### 5. Particulars of employees

The average number of staff employed by the company during the year amounted to

	2012 No	2011 No
Information Technology Outsourcing	11,585	11,605

The aggregate payroll costs of the above were

	2012 £000	2011 £000
Wages and salaries	550,080	537,382
Social security costs	60,815	52,694
Other pension costs	75,755	63,036
Equity-settled share-based payments	10,322	8,460
Other employee benefits	449	1,123
	<u>697,421</u>	<u>662,695</u>

Other pension costs above do not include amounts credited to finance income (see note 6) and amounts recognised in the statement of total recognised gains and losses in respect of defined benefit pension schemes

### 6. Interest receivable and similar income

	2012 £000	2011 £000
Other interest receivable	-	3
Interest receivable on finance debtor	19,813	21,615
Interest receivable on finance leases	12,608	9,247
Interest from group undertakings	294	332
Other finance income (note 21)	8,675	13,807
	<u>41,390</u>	<u>45,004</u>

### 7. Interest payable and similar charges

	2012 £000	2011 £000
Discounted provisions – unwinding of discount	5,302	6,673
– effect of change in discount rate	2,483	3,451
Interest payable to group companies	43	210
Interest payable in respect of finance leases and hire purchase contracts	17,573	12,383
Interest payable on shares classed as financial liabilities	-	4,733
Other interest payable	-	143
	<u>25,401</u>	<u>27,593</u>

## Notes to the financial statements

at 31 October 2012

### 8. Tax on profit on ordinary activities

(a) Analysis of charge in the period

	2012 £000	2011 £000
Current tax		
UK corporation tax on the profit for the year at 24.83% (2011 26.83%)	16,627	39,948
Amount transferred to statement of total recognised gains and losses	19,323	17,135
Over provision in prior year	-	1,512
	<u>35,950</u>	<u>58,595</u>
Foreign tax		
Current tax on income for the year	539	115
	<u>36,489</u>	<u>58,710</u>
Total current tax (note 8(b))		
Deferred tax		
Origination and reversal of timing differences – current year	(3,556)	(487)
Origination and reversal of timing differences – prior year	(2,268)	4,439
Effect of decreased tax rate	5,459	3,844
Total deferred tax	<u>(365)</u>	<u>7,796</u>
Tax on profit on ordinary activities	<u>36,124</u>	<u>66,506</u>

(b) Factors affecting current year tax charge

The tax assessed on the profit on ordinary activities for the year is different to the standard rate of corporation tax in the UK of 24.83% (2011 26.83%). The differences are reconciled below

	2012 £000	2011 £000
Profit on ordinary activities before tax	<u>190,451</u>	<u>152,008</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.83% (2011 26.83%)	47,289	40,784
Effects of		
Disallowable expenses	9,359	19,541
Income non-taxable	(4,190)	(3,729)
Royalty income taxed in prior periods	(20,063)	-
Depreciation and similar items in excess of capital allowances	(5,377)	(4,363)
Capital items in revenue	4,538	3,177
Other timing differences	4,394	1,673
Adjustments to tax charge in respect of prior years	-	1,512
Overseas tax	539	115
Total current tax (note 8(a))	<u>36,489</u>	<u>58,710</u>

## Notes to the financial statements

at 31 October 2012

### 8. Tax on profit on ordinary activities (continued)

#### (c) Deferred tax

The deferred tax included in the balance sheet is as follows

	2012 £000	2011 £000
Included in debtors (note 14)	63,116	62,693

The movement in the deferred taxation account during the year was

	2012 £000	2011 £000
Balance brought forward	301,225	249,152
Profit and loss account movement arising during the year (note 8(a))	365	(7,796)
Amounts credited to the statement of total recognised gains and losses	9,982	59,869
Balance carried forward	311,572	301,225

The balance of the deferred taxation account consists of the tax effect of timing differences in respect of

	2012 £000	2011 £000
Excess of depreciation over taxation allowances	36,166	37,886
Pension deficit	248,456	238,532
Other timing differences	26,950	24,807
Total deferred tax asset	311,572	301,225
Transfer out of pension deficit (note 21)	(248,456)	(238,532)
	63,116	62,693

A deferred tax asset has been recognised as the directors believe that, based on forecast results, it is more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted

# Notes to the financial statements

at 31 October 2012

## 8. Tax on profit on ordinary activities (continued)

(d) Factors that may affect future tax charges

The Finance Bill 2012 included a reduction in the UK corporation tax rate from 26% to 24% from 1 April 2012 and a further reduction to 23% from 1 April 2013. These rates were enacted on 17 July 2012 and therefore deferred tax assets and liabilities as at 31 October 2012 have been calculated at a rate of 23%.

In his Autumn Statement of 5 December 2012, the Chancellor of the Exchequer announced Budget tax changes, which, if enacted in the proposed manner, will have an effect on the company's future tax position. The Budget proposed a decrease in the rate of UK corporation tax in addition to the reduction to 22%, by a further 1%, to 21% as of 1 April 2014. Furthermore, in his budget on 21 March 2013, the Chancellor of the Exchequer announced a further reduction to the UK Corporation Tax rate by 1% from 1 April 2015, to 20%.

The effect on the Company of these proposed changes to the UK tax system will be reflected in the Company's financial statements in future years, as appropriate, once the proposals have been substantially enacted.

For indicative purposes only, the effect of the reduction in tax rate to 20% would be to reduce the deferred tax asset (including the pension deficit) as at 31 October 2012 of £311,572,000 to £270,932,000.

Furthermore, from 1 April 2012, there will be a 2% reduction in the rates of capital allowances, the main rate pool going down from 20% to 18% and the special rate pool from 10% to 8%.

## 9. Dividends paid

### Equity dividends

	2012 £000	2011 £000
<i>Paid during the year</i>		
Equity dividends on ordinary shares	-	13,900

On 30 September 2011, an interim ordinary dividend of £13,900,000 was declared and paid.

### Dividends on shares classed as financial liabilities

	2012 £000	2011 £000
<i>Paid during the year</i>		
Dividends on shares classed as financial liabilities	-	15,147

On 6 October 2011, dividends on preference shares accrued up to 31 July 2011 of £15,146,666 were declared and paid.



## Notes to the financial statements

at 31 October 2012

### 10. Tangible fixed assets

	<i>Land and property £000</i>	<i>Leasehold improvements £000</i>	<i>Assets under construction £000</i>	<i>Plant and machinery £000</i>	<i>Software £000</i>	<i>Total £000</i>
<i>Cost</i>						
At 1 November 2011	13,852	367,722	9,054	724,151	144,797	1,259,576
Additions	651	10,471	4,777	86,579	1,434	103,912
Disposals	-	(1,708)	-	(154,047)	(79,076)	(234,831)
Transfers	-	6,042	(12,276)	6,234	-	-
At 31 October 2012	14,503	382,527	1,555	662,917	67,155	1,128,657
<i>Depreciation</i>						
At 1 November 2011	1,116	130,208	-	666,082	128,236	925,642
Charge for the year	123	21,151	-	35,067	9,083	65,424
On disposals	-	(1,151)	-	(148,442)	(78,906)	(228,499)
At 31 October 2012	1,239	150,208	-	552,707	58,413	762,567
<i>Net book value</i>						
At 31 October 2012	13,264	232,319	1,555	110,210	8,742	366,090
At 1 November 2011	12,736	237,514	9,054	58,069	16,561	333,934

Land and property – Included within the net book value of land and property is £3,678,589 (2011 £3,801,550) of depreciable long leasehold property, and £9,585,761 (2011 £8,934,673) of land which is not depreciated

Transfers of assets relate to assets under construction brought into operation transferred to depreciable assets within the categories, leasehold improvements, plant and machinery and software and transfers of assets to/from fellow group companies

#### Hire and lease purchase agreements

Included within the net book value of £366,090,000 is £77,857,136 (2011 £6,083,788) relating to assets held under hire and lease purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £11,184,619 (2011 £4,844,973)

## Notes to the financial statements

at 31 October 2012

### 11. Intangible fixed assets

	<i>Goodwill</i> <i>£000</i>
<i>Cost</i>	
At 1 November 2011 and 31 October 2012	<u>296,954</u>
<i>Amortisation</i>	
At 1 November 2011	163,278
Charge for the year	<u>38,763</u>
At 31 October 2012	<u>202,041</u>
<i>Net book value</i>	
At 31 October 2012	<u>94,913</u>
At 1 November 2011	<u>133,676</u>

Goodwill net book value of £88,546,515 (2011 £120,745,248) relates to the acquisition on 1 August 2009 of the UK outsourcing business from Hewlett-Packard Limited and Hewlett-Packard Marigalante Limited, which is being written off over 6 years on a straight line basis representing the estimated useful economic life

Goodwill net book value of £6,366,336 (2011 £7,639,603) relates to the acquisition on 31 October 2011 of the UK outsourcing business from Eisis Limited which is being written off over 6 years on a straight line basis representing the estimated useful economic life

Goodwill net book value of £nil (2011 £4,589,770) relates to the acquisition of the business of HP Enterprise Services Security & Defence UK Ltd on 1 October 1992, which has been fully amortised in the year

Goodwill net book value of £nil (2011 £701,476) relates to the acquisition on 1 June 2009 of the business of RelQ Europe Limited which has been fully amortised in the year

## Notes to the financial statements

at 31 October 2012

### 12. Investments

	<i>Shares in group undertakings</i>
	<i>£000</i>
<i>Cost</i>	
At 1 November 2011 and at 31 October 2012	16,735
<i>Amounts impaired</i>	
At 1 November 2011	11,441
Written off in year	5,178
At 31 October 2012	16,619
<i>Net book value</i>	
At 31 October 2012	116
At 1 November 2011	5,294

The directors have carried out an impairment review of the company's investments and have written off amounts in the year to the extent that they are considered to be recoverable with respect to its investment in Eisis Limited. Eisis Limited was placed into voluntary liquidation on 26 July 2012 after an ordinary dividend of £16,875,000 was received by the company which is included in the profit and loss account shown within income from shares in group undertakings.

Companies in which the company's interest is more than 20% are as follows

<i>Company</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Class and percentage of shares held</i>
Media Accounting Services Limited	England and Wales	Technology and information services	£1 ordinary shares 100%
Eisis Limited	England and Wales	In liquidation	£1 ordinary shares 100%
EDS Trustee Limited	England and Wales	Dormant company	£1 ordinary shares 90%
EDS 1994 Trustee Limited	England and Wales	In liquidation	£1 ordinary shares 90%

### 13. Stocks

	<i>2012</i>	<i>2011</i>
	<i>£000</i>	<i>£000</i>
Finished goods and goods for resale	33,203	38,820
Long term contract balances	35,956	29,343
	<u>69,159</u>	<u>68,163</u>
<i>Long term contract balances are analysed as follows</i>		
Cost less foreseeable losses	100,500	106,151
Less applicable payments on account	(64,544)	(76,808)
	<u>35,956</u>	<u>29,343</u>

## Notes to the financial statements

at 31 October 2012

### 14. Debtors

	2012 £000	2011 £000
Trade debtors	288,913	275,087
Amounts owed by group undertakings	479,156	313,364
Corporation tax repayable	17,788	-
Finance debtors	367,164	423,817
Amounts recoverable on contracts	121,583	181,788
Deferred contract costs	90,651	73,150
Other debtors	4,017	4,463
Prepayments and accrued income	81,682	83,496
Deferred taxation (note 8(c))	63,116	62,693
	<u>1,514,070</u>	<u>1,417,858</u>

The debtors above include the following amounts falling due after more than one year

	2012 £000	2011 £000
Finance debtor	218,257	291,056
Amounts recoverable on contracts	-	25,947
Deferred contract costs	64,824	58,890
Other debtors	1,793	-
Prepayments and accrued income	23,998	16,447
Deferred tax asset	54,863	56,665
	<u>363,735</u>	<u>449,005</u>

### 15. Creditors: amounts falling due within one year

	2012 £000	2011 £000
Bank overdraft	403	34,043
Payments received on account	117,574	121,057
Trade creditors	68,912	57,594
Amounts owed to group undertakings	262,832	234,372
Corporation tax payable	-	20,820
Other taxation and social security	64,373	67,889
Obligations under hire and lease purchase contracts (note 17)	98,889	67,415
Other creditors	570	1,150
Accruals	119,827	160,514
	<u>733,380</u>	<u>764,854</u>

## Notes to the financial statements

at 31 October 2012

### 16. Creditors: amounts falling due after more than one year

	2012 £000	2011 £000
Payments received on account	17,716	39,826
Other creditors	44,952	45,091
Obligations under hire and lease purchase contracts (see note 17)	148,905	105,583
	<u>211,573</u>	<u>190,500</u>

Included within other creditors is £44,492,203 (2011 £42,966,868) relating to the purchase of data centres contained within tangible assets which are secured on these assets

### 17. Obligations under hire and lease purchase agreements

Future commitments under hire and lease purchase agreements are as follows

	2012 £000	2011 £000
Amounts payable		
Within one year	98,889	67,415
In 2 to 5 years	148,642	104,970
After 5 years	263	613
	<u>247,794</u>	<u>172,998</u>

Commitments under hire purchase and finance leases are secured on the assets concerned

## Notes to the financial statements

at 31 October 2012

### 18. Provisions for liabilities and charges

	<i>Dilapidation &amp; Onerous Lease provisions £000</i>	<i>Contract provisions £000</i>	<i>Other termination benefits £000</i>	<i>Total £000</i>
Balance brought forward	38,617	1,855	53,962	94,434
<i>Charge to the profit and loss</i>				
Additional amounts provided	1,923	384	3,733	6,040
Unwinding of discounted amount	2,663	-	2,639	5,302
Effect of change in assumptions	-	-	2,483	2,483
Amounts utilised during the year	(16,147)	(1,778)	(3,820)	(21,745)
Balance carried forward	27,056	461	58,997	86,514

Dilapidation provisions represent the net present value of leasehold premises exit obligations. These are expected to be utilised on exit of individual leases. Leasehold obligation assets within leasehold improvement tangible fixed assets are set up at the net present value of the contractual obligation assumed on entry to leasehold premises and depreciated accordingly (note 1). At the same time dilapidation provision are reflected for an equal and opposite amount. Regular review of the exit obligation is undertaken.

Onerous lease provisions represent the net present value of the costs associated with certain contractual obligations for leasehold premises which are no longer used in operations following a group property rationalisation program.

Contract provisions comprise provision for costs to complete construct and build elements of contracts where the total estimated costs are in excess of the revenue for those contract components, and the provision for claims and actions against the company in respect of contract disputes.

Other termination benefits are contractual enhancement payments made to ex-employees who have had their employment terminated early and who are members of the 1994 pension scheme. These amounts are linked to pensions and are administered as such but funded by the company directly. The resulting liability is measured at the discounted value of the future payments, using similar assumptions to the pension plan and the liability is payable from the date of employee leaving to the retirement age or death of the employee.

## Notes to the financial statements

at 31 October 2012

### 19. Share capital

	2012 £'000	2011 £'000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	157,580	157,580

### 20. Reconciliation of shareholders' funds and movement on reserves

	Share capital £000	Profit and loss account £000	Total £000
At 1 November 2010	86,580	247,592	334,172
Additional ordinary shares *	71,000	-	71,000
Profit for the financial year	-	85,502	85,502
Equity dividend	-	(13,900)	(13,900)
Actuarial loss recognised in respect of defined benefit pension schemes net of current and deferred tax	-	(283,601)	(283,601)
Recognition of equity-settled share-based payments in the year	-	8,460	8,460
Recharge for exercised share options	-	(7,842)	(7,842)
At 31 October 2011	157,580	36,211	193,791
Profit for the financial year	-	154,327	154,327
Actuarial loss recognised in respect of defined benefit pension schemes net of current and deferred tax	-	(174,883)	(174,883)
Recognition of equity-settled share-based payments in the year	-	10,322	10,322
Recharge for exercised share options	-	(2,208)	(2,208)
At 31 October 2012	157,580	23,769	181,349

\*On 7 October 2011 preference shares were re-designated as ordinary share capital of the company

## Notes to the financial statements

at 31 October 2012

### 21. Pensions and other post-retirement benefits

#### Defined contribution schemes

Hewlett Packard in the United Kingdom operates defined contribution pension schemes for the benefit of certain employees

The assets of these schemes are held separately from those of the company in an independently administered fund. The pension charge represents contributions payable by the company to the funds and amounted to £27,092,652 (2011: £21,725,328). There were no outstanding or prepaid contributions at the end of the financial period.

#### Defined benefit schemes

The company operates defined benefit pension schemes for the benefit of certain employees

- the Electronic Data Systems Retirement Plan (Retirement plan)
- the Electronic Data Systems 1994 Pension Scheme (1994 scheme)
- the Memorex UK Limited Pension Plan (Memorex)

These schemes provide benefits based on final pensionable pay. The assets of the schemes are held separately from those of the company in separate trustee administered funds. These schemes are closed to new individual members. New individual employees are invited to join the defined contribution scheme operated by Hewlett Packard (see above).

The valuation used has been based on the most recent actuarial valuation at 1 April 2010 (Retirement Plan), 31 December 2009 (1994 scheme) and 1 April 2009 (Memorex) and updated by the schemes' independent qualified actuaries Xafinity Consulting Limited to take account of the requirements of FRS17 in order to assess the liabilities of the schemes at 31 October 2012 and 31 October 2011.

For the 1994 scheme and retirement plan, the next funding valuations will both be as at 31 December 2012 (the date of the Retirement plan valuation being brought into line with the date of the 1994 scheme valuation).

For Memorex, a funding valuation as at 1 April 2012 has not yet been completed and will be completed in due course.

Scheme assets are stated at their market values at the respective balance sheet dates. The expected rates of return are established by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rate of return experienced in the respective markets.



# Notes to the financial statements

at 31 October 2012

## 21. Pensions and other post-retirement benefits (continued)

The table presented below summarises the fair value of the schemes' assets and the present value of the schemes' liabilities

	2012 £000	2011 £000
Scheme assets at fair value		
Equities	1,311,137	1,184,734
Bonds	310,066	283,864
Property	34,078	-
Others	211,483	170,945
Fair value of scheme assets	1,866,764	1,639,543
Present value of scheme liabilities	(2,947,008)	(2,593,421)
Defined benefit pension scheme deficit	(1,080,244)	(953,878)
Related deferred tax asset	248,456	238,532
Net liability on the balance sheet	(831,788)	(715,346)

The pension plans have not invested in any of the company's or the HP group's own financial instruments nor in properties or other assets used by the company or HP group

The amounts recognised in the profit and loss account and the statement of total recognised gains and losses for the year are as follows

	2012 £000	2011 £000
Recognised in the profit and loss account		
Current service costs	45,722	38,427
Loss on curtailment	3,102	-
Separated employee pension enhancements	2,692	2,585
Expenses recognised in arriving at operating profit	51,516	41,012
Expected return on scheme assets	(134,246)	(130,614)
Interest on scheme liabilities	125,571	116,807
Other finance income	(8,675)	(13,807)
Total expense recognised in the profit and loss account	42,841	27,205

## Notes to the financial statements

at 31 October 2012

### 21. Pensions and other post-retirement benefits (continued)

	2012 £000	2011 £000
Taken to the statement of total recognised gains and losses		
Actual return less expected return on scheme assets	25,228	(121,966)
Experience gains/(losses) arising on scheme liabilities	8,695	(7,852)
Effect of changes in assumptions underlying the present value of scheme liabilities	(238,111)	(238,322)
Net gain on transferred in amounts	-	7,535
Actuarial gains and losses recognised in the statement of total recognised gains and losses	<u>(204,188)</u>	<u>(360,605)</u>

#### The main assumptions adopted are

		%	%
Rate of increase in salaries	- retirement plan - post April 2010	3.5	3.5
	- retirement plan - pre April 2010	2.0	2.0
	- 1994 plan	2.0	2.0
Rate of increase in pensions in payment	- retirement plan - pre 2006	2.9	2.9
	- retirement plan - post 2006	2.1	2.1
	- 1994 plan	2.9	3.0
Discount rate		4.4	4.9
Inflation assumption	- RPI	2.9	3.0
Inflation assumption	- CPI	2.4	2.3
Expected rates of return on scheme assets		7.5	7.9
		Years	Years
Post-retirement mortality			
Current pensioners	at 65 - male	23.7	23.7
	at 65 - female	25.4	25.4
Future pensioners	at 65 - male	25.2	25.2
	at 65 - female	27.0	27.0

The post-mortality assumptions allow for expected increase in longevity. The current disclosures above relate to assumptions based on longevity (in years) following retirement at the balance sheet date, with future being that relating to an employee retiring in 2032.

## Notes to the financial statements

at 31 October 2012

### 21. Pensions and other post-retirement benefits (continued)

Changes in the present value of the defined benefit obligation scheme are as follows.

	2012 £000	2011 £000
Opening defined benefit obligation	2,593,421	2,229,153
Current service cost	45,722	38,427
Loss on curtailment	3,102	-
Separated employee pension enhancements	2,692	2,585
Interest on scheme liabilities	125,571	116,807
Actuarial (gain)/loss	(8,695)	7,852
Contributions by scheme participants	1,436	1,414
Transfers in	-	10,514
Benefits paid	(54,352)	(51,653)
Changes in assumptions	238,111	238,322
Closing defined benefit obligation	<u>2,947,008</u>	<u>2,593,421</u>

Changes in the fair value of scheme assets are as follows

	2012 £000	2011 £000
Opening fair value of scheme assets	1,639,543	1,573,925
Expected return on scheme assets	134,246	130,614
Contributions by employer	120,663	89,160
Contributions by scheme participants	1,436	1,414
Transfers in	-	18,049
Benefits paid	(54,352)	(51,653)
Assets over/(under) performance from expected	25,228	(121,966)
Closing fair value of scheme assets	<u>1,866,764</u>	<u>1,639,543</u>

The separated employee's pension enhancements relate to additional pension benefits offered to employees leaving through redundancy and as such outside of the scope of FRS 17. These are paid through the pension schemes.

Transfers in relate to amounts from other pension schemes which have transferred into the company's schemes for groups of new employees.

Contributions paid by the company in the accounting year amounted to £120,663,000. £75,000,000 paid in February 2012 and £33,450,000 in August 2012 relate to instalments of a contributions funding schedule agreed to be paid over the period October 2011 through to June 2013. £12,213,000 was paid through monthly payroll deductions relates to contributions payable in respect of the year November 2011 to October 2012.

## Notes to the financial statements

at 31 October 2012

### 21. Pensions and other post-retirement benefits (continued)

Future contribution instalments over the period October 2011 to June 2013 are £53,000,000 on 31 January 2013 and £86,000,000 on 30 June 2013. These payments include contributions towards deficit removal. A onetime payment of £5,389,000 in November 2012 was paid into the 1994 scheme and regular monthly contributions from payroll deductions will be paid at the same percentage rates as paid in the year to 31 October 2012.

#### Amounts for current period and previous four periods

	<i>12 months ended 31 October 2012 £000</i>	<i>12 months ended 31 October 2011 £000</i>	<i>12 months ended 31 October 2010 £000</i>	<i>10 months ended 31 October 2009 £000</i>	<i>12 months ended 31 December 2008 £000</i>
Present value of defined benefit obligation	(2,947,008)	(2,593,421)	(2,229,153)	(2,210,583)	(1,708,398)
Fair value of scheme assets	1,866,764	1,639,543	1,573,925	1,350,501	1,159,527
Deficit in schemes	<u>(1,080,244)</u>	<u>(953,878)</u>	<u>(655,228)</u>	<u>(860,082)</u>	<u>(548,871)</u>
Experience adjustments arising on scheme liabilities	8,695	(7,852)	49,563	(61,809)	(9,790)
Experience adjustments arising on scheme assets	<u>25,228</u>	<u>(121,966)</u>	<u>101,229</u>	<u>161,106</u>	<u>(577,523)</u>

The cumulative amount of actuarial gains and losses recognised since 1 January 2002 in the statement of total recognised gains and losses is a net loss of £1,099,983,000 (to 31 October 2011 £895,795,000).

## Notes to the financial statements

at 31 October 2012

### 22. Share-based payments

The company recognises stock-based compensation expense for all share-based payment awards, net of forfeitures. The recognised costs are for only those shares expected to meet the service and performance vesting conditions over the requisite service period of the awards.

The company has the following stock purchase and incentive compensation plans

#### Employee Stock Purchase Plan

From 1st November 2010, Hewlett-Packard Company ("HP"), the ultimate parent company, sponsors the Hewlett-Packard Company 2011 Employee Stock Purchase Plan (the "2011 ESPP"), pursuant to which eligible employees of Hewlett-Packard Limited could contribute up to 10% of base compensation, subject to certain income limits, to purchase shares of HP's common stock. Purchases made prior to fiscal year 2011 were made under the Hewlett-Packard Company 2000 Employee Stock Purchase Plan which expired on 1 November 2010.

For purchases made on or after 31 October 2011, employees purchased stock at a price equal to 95% of the fair market value on the purchase dates. An expense is recorded in the profit and loss account in connection with those purchases which equals to the cross charge from the parent company for the 5% discount employees received on the purchases.

#### Incentive Compensation Plans

HP's incentive compensation plans are 'broad-based' plans which include principal plans adopted in 2004 (as amended in 2010), 2000 and 1995 ("principle equity plans") as well as various stock option plans assumed through acquisitions under which stock based awards are outstanding. Stock based awards granted from the principle equity plans include stock options, restricted stock awards and performance based restricted units ("PRUs"). Employees meeting certain employment qualifications are eligible to receive stock based awards.

#### Stock Options

Stock option granted under the principal equity plans are non-qualified stock options. Stock options generally vest over three to four years from the date of grant. The exercise price of a stock option is equal to the fair market value of HP's common stock on the option grant date. HP utilised Black-Scholes option pricing model to value the service based stock options granted under its principle equity plans.

HP estimated the weighted average fair value of stock options using the following assumptions

	2012	2011
Weighted average fair value of grants per share	\$8.54	\$7.42
Risk-free interest rate	0.85%	1.20%
Expected dividend yield	1.83%	1.97%
Expected volatility	40.00%	41.00%
Expected life in years	5.00	5.25

The risk-free interest rates for periods within the contractual life of the award are based on the U.S. Treasury yield curve in effect at the time of grant. In order to calculate expected volatility, management determined that implied volatility calculated based on actively traded options on HP common stock is a better indicator of expected volatility and future stock price trends than historical volatility. Therefore, expected volatility in fiscal years 2012 and 2011 was based on a market-based implied volatility. The expected life computation is based on historical exercise patterns and post-vesting termination behaviour.

The company recognised total expenses of £836,255 (2011: £270,060) in respect of stock options during the year.

## Notes to the financial statements

at 31 October 2012

### 22. Share-based payments (continued)

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows

	2012		2011	
	<i>Shares</i>	<i>WAEP</i>	<i>Shares</i>	<i>WAEP</i>
	<i>No</i>	<i>\$</i>	<i>No</i>	<i>\$</i>
Outstanding at the beginning of the year	954,407	34.38	784,962	36.74
Granted	80,265	28.41	262,618	23.59
Forfeited	(17,654)	25.93	(550)	42.27
Exercised	(102,336)	20.65	(138,467)	23.24
Transfers net	29,487	28.46	70,717	32.76
Expired	(126,822)	58.84	(24,873)	52.71
Outstanding at the end of the year	817,347	31.68	954,407	34.38
Exercisable at the end of the year	570,170	34.18	672,789	38.26

The weighted average share price at the date of exercise for share options exercised during the year was \$26.53 (2011: \$38.75)

The options outstanding at the year-end have an exercise price in the range of \$11.64 to \$51.54 (2011: \$11.64 to \$67.73) and a weighted average contractual life of 3.67 years (2011: 3.61)

#### Restricted Stock Awards

HP granted certain employees restricted stock awards. Restricted stock awards are non-vested stock awards and are generally subject to forfeiture if employment terminates prior to the release of the restrictions. Such awards generally vest one to three years from the date of grant. During that period, ownership of the shares cannot be transferred. Restricted stock units have dividend equivalent rights equal to the cash dividend paid on restricted stock. Restricted stock units do not have the voting rights of common stock, and the shares underlying the restricted stock units are not considered issued and outstanding. HP expenses the fair market value of restricted stock awards, as determined on the date of grant, ratably over the period during which the restrictions lapse.

Details of the number of non-vested restricted stock units during the period are as follows

	2012	2011
	<i>No</i>	<i>No</i>
Non-vested at the beginning of the year	364,441	201,049
Granted	463,892	421,969
Forfeited	(32,253)	(14,501)
Vested	(185,271)	(246,963)
Transfer net	1,193	2,887
Non-vested at the end of the year	612,002	364,441

In 2012 restricted stock units were granted with a weighted average fair value per unit of \$27.84

The company recognised total expenses of £8,546,193 (2011: £3,792,058) in respect of restricted stock units during the year

## Notes to the financial statements

at 31 October 2012

### 22. Share-based payments (continued)

#### Performance-Based Restricted Units

HP issued performance-based restricted units ("PRUs") representing hypothetical shares of HP common stock. Each PRU award reflects a target number of shares ("Target Shares") that may be issued to the award recipient before adjusting for performance and market conditions. The actual number of shares the recipient receives is determined at the end of a three-year performance period based on results achieved versus company performance goals and may range from 0% to 200% of the Target Shares granted. The performance goals for PRUs granted prior to fiscal year 2012 are based on HP's annual cash flow from operations as a percentage of revenue and on a market condition based on total shareholder return ("TSR") relative to the S&P 500 over the three-year performance period. The company did not grant PRU awards to employees during fiscal year 2012.

Recipients of PRU awards generally must remain employed by HP on a continuous basis through the end of the applicable three-year performance period in order to receive any portion of the shares subject to that award. Target Shares subject to PRU awards do not have dividend equivalent rights and do not have the voting rights of common stock until earned and issued, following the end of the applicable performance period. The expense for these awards, net of estimated forfeitures, is recorded over the requisite service period based on the number of Target Shares that are expected to be earned and the achievement of the company performance goals during the performance period.

For PRUs granted prior to fiscal year 2012, HP calculates the actual number of shares that a grant recipient receives based on the calculations described below. Cash flow performance goals are established at the beginning of each year. At the end of each year, a portion of the target number of shares may be credited in the award recipient's name depending on the achievement of the cash flow performance goal for that year. The number of shares credited varies between 0% if performance is below minimum level and 150% if performance is at or above maximum level. For performance between the minimum level and the maximum level, a proportionate percentage between 30% and 150% is applied based on relative performance between minimum and maximum. Following the expiration of the three-year performance period, the number of shares credited to the award recipient during the performance period is adjusted by a TSR modifier. The TSR modifier, which is determined at the beginning of each performance period, varies between 0%, if the minimum level is not met, resulting in no payout under the PRU award, and 133%, if performance is at or above the maximum level. For performance between the minimum level and the maximum level, a proportionate TSR modifier between 66% and 133% is applied based on relative performance between minimum and maximum. The number of shares, if any, received by the PRU award recipient equals the number of shares credited to the award recipient during the performance period multiplied by the TSR modifier.

## Notes to the financial statements

at 31 October 2012

### 22. Share-based payments (continued)

#### Performance-Based Restricted Units

For PRU awards granted prior to fiscal year 2012, HP estimates the fair value of the Target Shares subject to those awards using the Monte Carlo simulation model, as the TSR modifier represents a market condition. The following weighted-average assumptions, in addition to projections of market conditions, were used to determine the weighted-average fair values of these PRU awards for fiscal years ended on 31 October

	2012	2011
Weighted average fair value of grants per share	\$3.22 <sup>(1)</sup>	\$26.52 <sup>(2)</sup>
Risk-free interest rate	0.14%	0.35%
Dividend yield	1.78%	0.75%
Expected volatility <sup>(3)</sup>	41.27%	29.05%
Expected life in years	1.20	1.45

<sup>(1)</sup> Reflects the weighted-average fair value for the third year of the three-year performance period applicable to PRUs granted in fiscal 2010 and for the second year of the three-year performance period applicable to PRUs granted in fiscal 2011

<sup>(2)</sup> Reflects the weighted-average fair value for the third year of the three-year performance period applicable to PRUs granted in fiscal 2009, for the second year of the three-year performance period applicable to PRUs granted in fiscal 2010 and for the first year of the three-year performance period applicable to PRUs granted in fiscal 2011

<sup>(3)</sup> HP uses historic volatility for PRU awards as implied volatility cannot be used when simulating multivariate prices for companies in the S&P 500

Details of the number of non-vested performance-based restricted stock units during the year are as follows

	2012	2011
	No	No
Non-vested at the beginning of the year	462,690	436,714
Granted	-	101,220
Transfers net	6,176	19,045
Vested	-	(51,561)
Forfeited <sup>(4)</sup>	(262,054)	(42,728)
Non-vested at the end of the year	<u>206,812</u>	<u>462,690</u>

<sup>(4)</sup> Forfeited includes reductions where no payouts were awarded as minimum performances were not met

The company recognised total expenses of £939,895 (2011: £4,397,891) in respect of performance-based restricted stock units during the year



## Notes to the financial statements

at 31 October 2012

### 23. Commitments under operating leases

At 31 October 2012 the company had annual commitments under non-cancellable operating leases as set out below

	2012		2011	
	<i>Land and buildings</i>	<i>Other items</i>	<i>Land and buildings</i>	<i>Other items</i>
	£000	£000	£000	£000
Operating leases which expire				
Within 1 year	676	83	1,989	41
Within 2 to 5 years	11,273	1,111	11,245	1,093
After more than 5 years	8,257	-	9,640	-
	<u>20,206</u>	<u>1,194</u>	<u>22,874</u>	<u>1,134</u>

### 24. Parent undertakings and controlling party

The company's immediate parent undertaking is Hewlett-Packard Holdings Limited a company incorporated in England and Wales

The ultimate parent company and controlling party and the smallest and largest undertaking which consolidates these financial statements is Hewlett-Packard Company, which is incorporated in the United States of America. Copies of the group financial statements of Hewlett-Packard Company can be obtained from 3000 Hanover Street, Palo Alto, California 94304, U S A

### 25. Related parties

The company has taken advantage of the exemption available to wholly owned subsidiary undertakings under Financial Reporting Standard Number 8 ("Related Party Transactions"), and accordingly has not provided details of its transactions with other wholly owned entities forming part of the Hewlett-Packard Company group